

Message Text

CONFIDENTIAL

PAGE 01 KUWAIT 04567 041733Z

47

ACTION NEA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 ISO-00 NEAE-00 STR-04

SSO-00 INRE-00 NSCE-00 USIE-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

SAM-01 OES-03 SP-02 SS-15 STRE-00 TRSE-00 ERDE-00

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O P 041515Z NOV 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC NIACT IMMEDIATE 3996

INFO AMEMBASSY ABU DHABI PRIORITY

AMEMBASSY CARACAS PRIORITY

AMEMBASSY DOHA PRIORITY

AMEMBASSY JAKARTA PRIORITY

AMEMBASSY JIDDA PRIORITY

AMEMBASSY LAGOS PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY VIENNA PRIORITY

AMCONSUL DHAHRAN PRIORITY

USMISSION OECD PARIS PRIORITY

USMISSION EC BRUSSELS PRIORITY

USINT BAGHDAD PRIORITY

C O N F I D E N T I A L KUWAIT 4567

E.O. 11652: GDS

TAGS: ENGR, KU

SUBJ: GULF/BP NEGOTIATIONS WITH KUWAIT SUSPENDED

REF: KUWAIT 4546 (NOTAL)

SUMMARY: ON NOVEMBER 4 GOK ANNOUNCED THAT NEGOTIATIONS WITH
GULF AND BP ON TAKEOVER REMAINING ASSETS KUWAIT OIL COMPANY

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PAGE 02 KUWAIT 04567 041733Z

(KOC) HAD BEEN SUSPENDED. GULF REP HAS BRIEFED AMBASSADOR ON

MOST RECENT MEETING WITH OIL MINISTER KAZEMI AND PLANS LEAVE KUWAIT EVENING NOVEMBER 4. EMBASSY WILL PROVIDE REPORT LOCAL REACTION NOVEMBER 5,- END SUMMARY.

1. GULF VICE PRESIDENT RALSTON MET WITH AMBASSADOR AND DCM LATE NOVEMBER 4 FOLLOWING PUBLIC ANNOUNCEMENT BY GOK THAT TALKS BETWEEN GULF/BP AND GOK ON TAKEOVER KUWAIT OIL COMPANY HAD BEEN SUSPENDED. RALSTON PROVIDED FOLLOWING ACCOUNT OF DEVELOPMENTS SINCE THOSE REPORTED REFTEL.

2. REPRESENTATIVES TWO COMPANIES MET WITH OIL MINISTER KAZEMI MORNING OCTOBER 4. ON INSTRUCTIONS RECEIVED SAME DATE FROM BOARD CHAIRMAN DORSEY, RALSTON INFORMED MINISTER THAT THE CONDITIONS UNDER WHICH THE GOK HAD AGREED TO SUPPLY CRUDE TO GULF UNDER PROPOSED GOK TAKEOVER ARRANGEMENTS REPRESENTED UNACCEPTABLE COMMERCIAL RISK TO COMPANY (FIFTEEN CENT PER BARREL PRICE DIFFERENTIAL WITH 60-DAY CREDIT TERMS). GULF AND BP WERE UNABLE TO SELL KUWAITI CRUDE COMPETITIVELY UNDER TERMS PROPOSED BY GOK, PARTICULARLY WITH ANTICIPATED LOSSES UNDER BUNKERING AND TANKER OPERATIONS CALLED FOR IN GOK PROPOSAL. UNDER CIRCUMSTANCES, GULF/BP WANTED TO SUSPEND NEGOTIATIONS FOR SUFFICIENT TIME TO DEVELOP ENTIRELY NEW PROPOSALS FOR GOK CONSIDERATION.

3. GULF AND BP REPS MADE CLEAR POSITION STATED WAS A COMMON ONE. THE RECOGNIZED SOVEREIGN RIGHT OF GOK TO NEGOTIATE MORE FAVORABLE CREDIT (AND OTHER) TERMS WITH THIRD-PARTY BUYERS. HOWEVER, TWO COMPANIES POSITION WAS COMMERCIALY UNTENABLE BECAUSE OF ALMOST CERTAIN EROSION OF THEIR COMPETITIVE POSITION UNDER SUCH CIRCUMSTANCES. UNDER EXISTING OPEC CONTRACT, THEY HAD RIGHT TO LIFT 40 PERCENT OF KOC PRODUCTION AND TO EARN 2#.8 CENTS PER BARREL--WITH EQUIVALENT OF 75-DAYS CREDIT TERMS (FOR PAYMENT OF TAXES AND ROYALTIES).

4. ACCORDING TO RALSTON, TENSE SESSION CONCLUDED WITH OBSERVATION BY KAZEMI THAT THERE WAS "NO REASON FOR MORE TALK--NEGOTIATIONS HAVE STOPPED". KAZEMI SAID HE WOULD WRITE EACH COMPANY SEPARATELY "STATING GOK POSITION". HE NEITHER AGREED NOR DISAGREED TO GULF PROPOSAL THAT THE TWO COMPANIES RETURN TO KUWAIT WITH NEW CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KUWAIT 04567 041733Z

APPROACHES. (DURING COURSE MEETING, KAZEMI MADE INTERESTING OBSERVATION THAT COMPANIES HAD CREATED MAJOR PROBLEM FOR KUWAIT WHICH "NEEDED TO SELL UP TO 3 MILLION B/D TO MEET GOK REQUIREMENTS".

5. WHEN QUERIED BY AMBASSADOR CONCERNING GULF BP ASSESSMENT OF PROBABLE NEXT STEP BY GOK, RALSTON EXPRESSED RESTRAINED CONFIDENCE THAT GOK WOULD AWAIT NEW COMPANY PROPOSALS, WHICH HE SAID MUST BE DEVELOPED QUICKLY (WITHIN TWO WEEKS). HE NOT CERTAIN WHAT

KIND OF NEW APPROACHES COULD BE ADVANCED, BUT EXPRESSED BELIEF

GOK HAD NO OTHER GENUINE ALTERNATIVE EXCEPT TO WAIT. HE THEN DESCRIBED GULF'S UNDERSTANDING OF KUWAIT'S PRESENT MARKETING PROBLEMS--EXXON WAS PREPARED TO SUSPEND LIFTINGS (REPORTED SEPTEL), SHELL PLANS TO REDUCE LIFTING TO 310,000 B/D, NO FIRM COMMITMENTS TO BUY HAVE BEEN OBTAINED FROM JAPANESE COMPANIES. HE SAID HE HAD GOOD REASON TO BELIEVE CROWN PRINCE/PRIME MINISTER FULLY UNDERSTOOD KUWAIT'S WEAK POSITION, BUT WAS RELUCTANT TO MAKE CONCESSIONS TO GULF/BP WHICH COULD NOT BE DEFENDED IN THE NATIONAL ASSEMBLY. GULF/BP BELIEVED GOK, NEVERTHELESS, WOULD BE COMPELLED IN ITS OWN INTEREST TO ARRIVE AT A SETTLEMENT WHICH PERMITTED THE TWO COMPANIES TO COMPETE IN WORLD MARKETS.

6. DCM SUGGESTED THAT BREAKDOWN IN NEGOTIATIONS PUT GOK IN IMPOSSIBLE DOMESTIC POLITICAL POSITION. GOVERNMENT COULD OVER-REACT AND DEMAND OPEC SUPPORT. INCONCLUSIVE CONVERSATION FOLLOWED CONCERNING POSSIBLE GOK ACTIONS, WITH GENERAL CONSENSUS THAT GOK MUST RECOGNIZE EXISTING MARKETING REALITIES AND ACT ACCORDINGLY. GULF REPS EXPRESSED CONCERN THAT USG OR OTHER CONSUMER COUNTRY OFFICIALS MIGHT BE TEMPTED TO MAKE "UNHELPFUL" STATEMENTS SUGGESTING "MARKET FACTORS ARE DEFEATING KUWAIT AND OTHER OPEC PRODUCERS". GULF GENUINELY WANTED VIABLE LONG-TERM RELATIONS WITH KUWAIT.

7. GULF AND BP REPS PLAN TO RETURN TO PITTSBURG AND LONDON EVENING NOVEMBER 4, FOLLOWING DELIVERY OF BLAND LETTER TO KAMEMI ACKNOWLEDGING MOST RECENT SESSION AND INDICATING THEY WOULD RETURN IN A FEW WEEKS WITH NEW PROPOSALS.

8. COMMENT: IT STILL NOT CLEAR PRECISE LANGUAGE GOK HAS USED
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PAGE 04 KUWAIT 04567 041733Z

IN ANNOUNCING BREAKDOWN (SUSPENSION) OF TALKS BUT WE ASSUME DOOR IS STILL OPEN TO COMPANIES TO COME UP (FAIRLY SOON) WITH NEW PROPOSALS. EMBASSY WILL REPORT FURTHER LOCAL REACTION NOVEMBER 5. IN MEANTIME, DEPARTMENT MAY WISH SEEK CLARIFICATION FROM GULF CORPORATE HEADQUARTERS RE FUTURE INTENTIONS THAT COMPANY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NATIONALIZATION, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT04567
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750382-0886
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751177/aaaacqyi.tel
Line Count: 161
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 KUWAIT 4546
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2003 by ShawDG>; APPROVED <17 NOV 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GULF/BP NEGOTIATIONS WITH KUWAIT SUSPENDED
TAGS: ENRG, KU, GULF OIL, BP OIL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006